RESEARCH HIGHLIGHT

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Affordability Challenges and Rental Market Dynamics in Small Nova Scotia Communities with Community College Campuses

INTRODUCTION

This report focused on the rental market situation in Nova Scotia small towns where there are campuses of the Nova Scotia Community College (NSCC) system. The primary subject of this report was the housing situation of students within the context of three local markets of various sizes (Truro, Stellarton and Port Hawkesbury). In particular, this report examined various aspects of the local rental markets—supply and demand issues and factors—and assessed the situation of student renters within the local market. The report developed an understanding of the rental market capacity of small communities to provide a range of affordable housing options for residents and for students attending community college campuses located in small towns in Nova Scotia.

The major question addressed by this report was: What are the barriers to and opportunities for the provision of affordable housing options in small towns with college campuses?

For the purpose of this study, a flexible definition of "small rental markets" was employed. Small rental markets in the context of the Nova Scotia settlement pattern and the distribution of NSCC campuses are defined as those outside of the two largest metropolitan areas of the province—the Halifax Regional Municipality and the Cape Breton Regional Municipality. Thus small rental markets are those in all other towns and villages and places in the province.

The NSCC has 13 campus locations across the province: three are located in the Halifax Metro area, one is located in the Cape Breton Metro area; and the remaining nine are located in small towns. All campuses provide core programs for year one-entry level, and each campus offers a suite of specialized second-year programs designed to graduate students for employment in a chosen career (more than one campus may offer the same second-year program, but each specific program is typically available at only one or a few campus locations).

The NSCC overall student numbers have been growing (up 33% between 1998 and 2007); each of the three campus locations for this study have been growing as well.

METHODOLOGY

Four distinct research tasks were completed for this project:

- A literature review on rental housing generally and on small rental markets specifically.
- A web-based student survey was conducted Nov. 17—30, 2007. The survey was made available to students at all 13 NSCC campuses. The survey response rates at each of the case study campuses are as follows:
  - Truro 120 / 827 = 14.5%
  - Pictou (Stellarton) 80 / 737 = 10.9%
  - Strait (Port Hawkesbury) 54 / 687 = 7.9%
  - Total 254 / 2251 = 11.3%
- Key informant interviews were conducted between Nov. 1, 2007 and Jan. 11, 2008. A total of 40 interviews were completed.
- A review of local documents was used to provide contextual information for analyzing the primary data collected from the student surveys and key informant interviews.

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SMALL RENTAL MARKETS

Given the dearth of literature that focuses on the two subjects of community college students and smaller rental markets, it is difficult to offer a definitive statement based on the literature review about the extent to which community college towns are unique rental markets. In some respects, the rental markets in these college towns are likely to exhibit features that are quite similar to those in larger urban centres, especially those with universities. This may include features such as more diversity in the rental housing stock than in other communities of similar size, and higher rents given the presence of a steady market demand. On the other hand, they may have features that are more similar to other small towns that do not have a college campus, including limited capacity of the local development community to provide housing diversity, and competition with other market segments (such as seniors and low income households) for a limited number of available units.

The key factors influencing the rental market in small communities as identified in the literature include: local economic context; affordability; local planning; taxation; and rental property ownership structure. Rental markets in these communities are small and relatively less robust with little new investment in new units over time. The residualization of lower-income households in the rental market creates financial challenges for investors who struggle to find a balance between charging enough to earn a small profit and charging what the lower end of the market can afford (or risk higher vacancy rates). This reality points to ongoing affordability challenges facing those living in rental units in rural communities and small towns—smaller markets do not necessarily imply a greater degree of affordability when compared with urban markets. Certainly the changing demographics, highlighted by a rapid increase in the proportion of seniors' households, will have a profound impact on the potential future market orientation of existing and new units. Taking these points together, prospective students attending community colleges located in small housing markets may find it difficult to obtain appropriate and affordable housing.

SUMMARY OF EVIDENCE ABOUT SMALL RENTAL MARKETS FROM SECONDARY DATA

The three rental housing markets with community college campus have features that may create some challenges for students as they seek rental accommodation during their school year(s). There are an increasing number of smaller households and older households in each market, some of whom would likely be interested in rental housing to better meet their needs. The supply of rental housing is characterized by relatively high rates of need for repair. The rental supply is dominated by small-scale apartment buildings, semi-detached houses, and single-detached houses, although in Truro and Port Hawkesbury there are relatively more accessory apartments in the mix. There has been a relative lack of new rental housing construction in the Stellarton and Port Hawkesbury markets, while the new construction in Truro has been aimed at the seniors' market.

SUMMARY OF EVIDENCE ABOUT SMALL RENTAL MARKETS FROM KEY INFORMANT INTERVIEWS

In each of the case study communities, students play an important role in the market in terms of contributing to the economy and to the demand for rental housing. However, students do not necessarily drive the market. In Port Hawkesbury in particular, it was felt that students are impacted by responses of the market to other demand segments, such as migrant workers. In Truro and Stellarton, it was felt that the market was more influenced by seniors.

In all three markets, most interviewees (including many of the rental property owners themselves) stated that most rental property owners and developers do not make much or any use of published and other market information in their decision-making activities. Instead, most rely on their tacit local knowledge and "gut feeling," for the most part, when making a decision about whether or not to build new rental properties. However, there was a slight variation on this general theme in the Truro market, where several larger and more sophisticated developers of rental properties from the Halifax area have begun to build in the local market. They are making use of market information.

There were no significant or major planning issues identified by any of the interviewees in any of the markets. In all three case study locations the municipal plans have been recently updated. In Truro it was noted that secondary suites are not permitted as a right across the community. Truro has been successful in implementing a new unsightly premises bylaw. The Town has also taken the approach of using development agreements to facilitate new rental housing development. Both Stellarton and Truro have encouraged new residential development in their downtown core areas through revisions to their zoning bylaws. Access to quality land in the right location is becoming a problem in all three markets.

Staff at each of the three campuses who were interviewed felt that there was generally sufficient capacity within each of their local housing markets to absorb a modest increase in the number of students attending their campuses, should that occur. Collectively

they felt that if there was any increase in the number of students in the coming years (short term), most of them would be local persons who already have permanent accommodations or they would be within a reasonable commuting distance and not likely to relocate. In addition, the principal of each campus (and in some cases, other senior campus staff) are quite involved in their local communities, serving on various boards and committees, and participating in community organizations. This has meant that they are well-attuned to the changing nature of the community and the role and presence of the campus in the community. It also means that discussions about expansions or changes to programs or facilities are well-grounded in the knowledge about potential impacts in the community.

Campus staff who were interviewed at each of the three campus locations were not aware of any students who chose not to come to their campus because of a housing issue or because of a concern that they would not be able to find appropriate and affordable housing.

Access to financing and making rental housing work from a business case perspective appear to be the most significant challenges facing rental property owners and new development projects in smaller markets. In each of these three markets, there are rising input costs for new construction—land, materials, labour. From an ongoing operating perspective for existing properties, rents are primarily driven by input costs—the costs of electricity, heat, and fuel, supplies, repairs, contract labour. All have risen, and there have been corresponding increases in rents over the years. Property owners in each of the three markets expressed concern about the increasing difficulty in obtaining financing and mortgage loan insurance for new developments.

SUMMARY OF EVIDENCE ABOUT SMALL RENTAL MARKETS FROM STUDENT SURVEYS

The responses to the student survey suggest that students in a family situation and who rented in these smaller markets faced the most challenges—they paid more for their rental units than the average rent for a two-bedroom unit in the general marketplace in Truro and in Stellarton. They were also more likely than individual renters in those markets to feel that they paid more than they could afford. They also took longer than individual student renters to find their housing and more of them reported that they found the process to be difficult. Many reported need for repairs to their units, especially in the Truro and Stellarton markets. For individual student renters they generally paid less than what was paid in the general marketplace for a one-bedroom unit in each of the locations. Individual student renters at the Strait campus identified specific concerns about affordability and about the need for major repairs to their units.

When the survey data from all student respondents across the province were examined, it was found that more students renting in a family situation compared to individual student renters at campuses other than Truro, Pictou and Strait, ruled out attending any of these three campuses because of concerns about finding housing. However, it was also found that relatively few students who chose to attend other campuses had specifically wanted to attend one of these three campuses, but could not because of housing issues.

LESSONS AND RECOMMENDATIONS FOR PLANNERS

There are a number of initiatives and examples from the case study communities and stemming from the research findings which are of interest to municipal planners:

- Use pre-zoning for multi-unit development in targeted areas. This approach ensures that there will be adequate and suitable land for future development.
- Use development agreements to facilitate new rental development.
- Adopt a "residential mixed-use" zone to allow many possibilities for residential development within a downtown core area.
- Revise "commercial" zone designations to ensure that the bylaws within them offer flexibility and do not impede creative approaches to residential development.
- The wording and tone of the municipal planning strategy should have broad policy statements concerning affordable housing and consider potential campus expansion.
- Ensure planning regulations permit accessory apartments and secondary suites, where appropriate, in the community, since they provide an important rental option for students.
- Ensure there is an unsightly premises bylaw supported with a proactive education campaign to obtain compliance.
- Ensure ongoing inspections of questionable rental properties to address the need for major repairs and to improve the safety and comfort of occupants.
- Provide information to rental property owners about rental repair assistance programs available through various levels of government.

LESSONS AND RECOMMENDATIONS FOR RENTAL HOUSING PROVIDERS AND DEVELOPERS

A number of findings from the research suggest some potential action items for rental housing providers and developers in smaller rental markets with community college campuses:

- Build new rental housing that meets the needs of families with children to address the market gap identified by student renters with families.
- Build new rental housing that meets the needs of seniors. This may free up existing units to meet the needs of students.
- Explore partnership with local community college campuses to share information about the changing nature of the local student body and their housing needs, and to possibly lead to some type of development arrangement to meet the needs of the local student body.
- Work with their industry associations (such as homebuilders associations, real property associations, and so on) to lobby for or work with the financial industry and government to review its lending practices in smaller markets to address perceived problems of access to financing and mortgage loan insurance (see below).
- Identify sources of financing to address the repair needs in rental units, where these needs exist.

LESSONS AND RECOMMENDATIONS FOR COMMUNITY COLLEGE SYSTEMS

There are a number of potential actions that could be taken by community college campuses (individually at each campus) and across province-wide college systems as a whole:

- Each campus, and the college system as a whole, should consider the potential to invest in a small residence development for mature students and their families. A starting point for the NSCC in particular would be to revisit the various residence feasibility studies conducted at each campus in 2003.
- Investigate support for, and seek commitments to enhancements to, existing financial support programs for students, to address their housing affordability concerns. There may also be opportunities to work with other government departments to design financial assistance programs that meet the specific housing needs of students.
- Be proactive in providing more housing information to students about the local market and available rental properties. Inform rental property owners about how they can best reach their students, and inform the entire study body about the available source(s) of information concerning rental properties.
- Assist their students to better understand their rights as tenants, and assist them in finding the most appropriate housing possible in the local market. Examples include: a checklist of items to investigate and assess in a rental property unit when searching; the role of the rentalsman in support of the rights and responsibilities of tenants; and understanding their own rights and responsibilities as tenants.[1]

CONCLUSIONS

Responsiveness of Small Markets To Student Needs

A rental market that is responsive to the needs of students would provide a range of choices, with an adequate supply of reasonable quality, at prices students can afford. Across the three communities there was a wide range of rental choices for students; however, more of the family student renters than individual student renters took longer to find the housing they wanted.

In terms of the quality of rental housing occupied by students, a larger percentage of student renters reported that their units were in need of major repairs compared with the self-reported state of repair by the general population of renters in each of the three market locations. Furthermore, a larger proportion of family student renters than individual student renters reported a need for major repairs in each of the market locations.

Issues concerning price and affordability among student renters varied across the market locations. Individual student renters paid less than the average market rent for a one-bedroom apartment in Truro and Port Hawkesbury, while family student renters paid more than the average market rent for a two-bedroom apartment in all three market locations. However, the incidence in which students identified that they were paying more than they could afford (a proxy measure for being "in need" or for experiencing affordability problems) was actually slightly less than the incidence of core need among all renters in each of the market locations (based on calculations from the 2001 census). The only exception to this was for individual student renters from the Strait campus—where more than half reported they were paying more than they could afford in the Port Hawkesbury market.

The general conclusion that one can draw from this evidence is that smaller markets are less responsive to the needs of students on matters of choice and quality, especially for students with families. While there is some concern about affordability among student renters, the extent of the problem appears to be no different than (or even slightly better than) that for the general population.

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[1] See *Your Guide to Renting a Home* on www.cmhc.ca

Barriers to Providing Affordable Housing

Several issues emerged from the research as barriers to providing affordable housing options in smaller markets with community college campuses. Difficulty accessing construction financing and mortgage loan insurance was identified by some rental property owners in all three markets in this study. The small size of the markets themselves, and the relatively small scale of individual developments (typically eight to sixteen units in size), make it a challenge to achieve healthy and reasonable profit margins warranting the risk in new developments. The limited availability of land in Truro and Stellarton markets in particular was noted. In both Truro and Stellarton, key informants noted concern that almost all of the new rental market developments have been built for seniors to the exclusion of other market segments, leaving lower income households and students with little or no new supply to choose from. The economic uncertainty in some market locations deters investment. This was especially noted in the Port Hawkesbury case study.

Housing as a Factor in Student Choice of Community College Programs and Campuses

None of the interviewees were able to identify that any prospective students were not able to attend their campus or take their programs because of a real or perceived lack of housing choice. However, the responses to the student survey from across the entire NSCC system suggest that some students eliminated each of the three campuses in this case study from their list of possible campuses to attend because of concerns about housing. However, relatively few actually identified that they were unable to attend the campus of their choice due to housing concerns. Among student respondents from each of the three case study locations, housing was identified as an important consideration in the choice of which campus to attend by individual student renters at both Truro and Pictou campus, and by family student renters at the Strait campus.

Local Planning and Regulatory Issues

There were very few planning and regulatory issues identified by interviewees. There were some issues concerning the fact that secondary suites are not necessarily permitted as a right in some markets. The lack of pre-zoned land for new rental housing development was also identified. Concerns about unsightly premises were identified in all three markets, and in Truro the planning department implemented a successful proactive, education-based approach to dealing with such properties.

Use of Market Information for Decision-Making

There appears to be adequate market information available on the Truro and Stellarton markets, although some rental property owners questioned its accuracy and usefulness. There is very limited information about the smallest market, Port Hawkesbury. In all cases, rental property owners themselves noted that they did not rely on published or other market information for decision-making purposes. Instead, they rely on their own personal knowledge and networks, and their gut feelings about the opportunity for investment.

Local Housing Market Capacities and College System Decision-Making

There was very little evidence that local housing market capacities were or are taken into account when formal planning and decision-making about changes to the college system as a whole or to specific campus locations. However, since most students attend a local campus from the immediate surrounding geographic area, any natural or planned increases in enrolments will likely have no significant impact on local housing markets. Indeed, all NSCC staff who were interviewed felt that there was still room in the local markets to absorb more students if necessary. In terms of residence space, independent studies commissioned by the NSCC in the early 2000s indicated that there would be limited or no financial impact on the private rental market in these markets. The residence space in Truro could be expanded, and the loss of the residence space at Strait campus a few years ago could be replaced, in both cases, with minimal impact on the private market. Senior campus staff are involved in their local communities and are attuned to ongoing issues and potential impacts of any local and system-wide decisions

Presence of Community College Students in Local Housing Markets

Generally speaking, students appear to have minimal impact on the ability of others in each of the case study communities to find affordable rental housing. In all cases they are important to the overall economic health of their communities and to the housing sector as well. In Truro the market focus at the moment is seniors, leaving other supply to students. Stellarton is a submarket within the New Glasgow marketplace. There is no evidence that others are impacted by anyone renting to students. New seniors housing has been built in both Stellarton and New Glasgow in recent years. Employees in the call centre industry are generally housed in the New Glasgow area. In Port Hawkesbury, the smallest of the three markets, seniors are not getting the housing they require because the private sector cannot afford to build it and earn a reasonable return on investment, and much of the present rental housing is of a quality and type that better suits students than it does seniors. But the market there is driven more by migrant labour demands and fluctuations in the economy.

FURTHER RESEARCH

There are three potential areas of further research stemming from the findings of this research:

- Research is needed to understand concerns expressed by some rental property owners about access to finance and loan insurance for new rental housing construction. The research should include interviews or discussions with the financial industry (locally, regionally, and nationally), mortgage loan insurance providers, rental property owners and developers, and others.
- Research on vacancy rates in smaller rental markets is needed. More specifically, the research needs to identify new approaches to measuring the health of small rental market and appropriate measures of a "balanced market." This research would provide better market intelligence and signals to rental market participants, including renters themselves.
- Research on the feasibility of developing residences for community college campuses in small markets is needed. The cost of building and maintaining residence space is high and investment is potentially risky. Documenting actual need is required. Understanding successful partnerships between the private sector and educational institutions will provide useful examples that may lead to creative development approaches.

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Research Report: *Affordability Challenges and Rental Market Dynamics in Small Nova Scotia Communities with Community College Campuses*

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